



GEORGE MORRIS CENTRE

**Aligning the Ontario Grape Supply and Demand:
A Varietal Plan for the Grape and Wine Industry
Final Report**

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Executive Summary

The Ontario grape and wine sector faces a challenging period as it evolves. It is experiencing pressures related to production costs, increased import competition, and constraints on household budgets that influence consumer purchasing patterns. The Government of Ontario, after consultation with the Ontario grape and wine industry, recently announced a number of funding initiatives that are part of the government's long-term plan for this industry, which focuses on building the success of Ontario's Vintners Quality Alliance (VQA) wines. In addition, aspects of the regulatory environment that govern blended wines are to be altered, which, in turn, will change the competitive environment for grape production and wine making in Ontario.

The purpose of this study was to inform a multi-year varietal plan for Ontario grapes. The specific objectives are:

- To assess industry directions, including principal varietals of focus
- To provide an assessment of varietals with good market potential in the future
- To provide an assessment of varietals that have proven difficult or unreliable to grow
- To identify key lessons regarding investments in technology
- To identify key viticultural practices that improve grape quality and wine production

Methods

To meet the objectives of the study, the following procedures were undertaken. First, a literature review and data collection exercise was undertaken in order to describe the existing grape and wine industry in Ontario. Second, an investigation and information collection exercise via interviews along the value chain (growers, winemakers, retailers and researchers) was conducted in order to frame the issues facing the grape and wine sector and to provide perceptions of industry direction.

Observations

Grape production and acreage has been growing significantly, especially in vinifera. Grape production has been variable, however; some of this can be explained based on variation in yields by varietals, and the age of vines in the various varietals. In general, the highest yielding, least variable and oldest vines are hybrids, followed by the key white varietals (Riesling and Chardonnay) and specific reds (Cabernet Franc and Gamay). Conversely, the generally lower yielding, more variable, and younger varietals are the Bordeaux reds, Pinot Noir/Gris and Sauvignon Blanc.

There is a notable distinctness regarding climatic conditions across wine regions in Ontario. It is remarkable the extent of difference between appellations and the Niagara sub-appellations. However, it is not evident that varietal choices have been driven by these climatic differences. The data show a wide range of red and white varieties established across appellations and sub-appellations; in particular, both red varieties and

white hybrids are ubiquitous across regions. This suggests that other factors, such as winery demand or grower perception may have been a more significant consideration.

The Ontario wine market is dynamic and segmented. The market is growing, and within it there is a shift toward higher valued wines. The low price point category is declining and is dominated by imports and ICB wines. VQA wines are prevalent and growing at price points above \$12.

Ontario wines have their largest LCBO volumes in white varietals and non-varietals (both VQA and Non-VQA¹) and in Merlot and Cabernet-Merlot for VQA. The growth in VQA sales is largely in the varietals that are the largest volumes, with Vidal and Cabernet Sauvignon in decline. The growth in the Non-VQA category is in Vidal, Pinot Gris, and Cabernet Franc and Cabernet Merlot and to some extent Cabernet Sauvignon; Chardonnay is in decline in this category. Imports are largely comprised of Non-varietals, red varietals, Pinot Gris, Sauvignon Blanc, and Chardonnay. Non-varietal imports are in decline while most varietals, especially reds, Pinot Gris and Sauvignon Blanc are increasing.

The policy factors influencing grapes and wine in Ontario form a complex web. Markets are regulated at the retail and farm level, and a complex set of regulations influences the nature of the product, trade, pricing, sale to consumers, and its taxation. While these policy elements are likely to be familiar to those in the industry, they have not evolved in any coordinated fashion.

The consultations along the value chain provided perceptions of where the industry should focus and how it should move forward.

- Growers are mostly clear on the varietals that they feel work in the Ontario climate—largely the major white varietals and a relatively narrow set of red varietals. The growers felt they had a good relationship with their wineries, but that it was changing, particularly regarding quality. The rationale was not clear for the changes around quality, and the motivations were subject to speculation on behalf of growers. Growers observed that investments in labour saving, quality enhancing, and improved winter survival technologies were the most significant.
- Wineries had broadly similar perceptions as growers regarding varietals that work well in Ontario. The apparent gap was Merlot which the growers saw as a positive variety in Ontario but the wineries tended not to, although the data show it is a large and growing category for wines made in Ontario, especially VQA. The wineries had somewhat divergent views regarding wine marketing; in some elements these differences could be readily split between WGAO and WCO members, in others cases they could not. There was a sense of uniformity across wineries regarding the importance of quality in grape procurement issue.

¹ In this report non-VQA refers to ICB wines and other wines made from 100% Ontario grapes that are not VQA.

- The major retailer of Ontario wines perceives itself as a strong supporter of Ontario wines, particularly of VQA but also ICB. This is manifest in terms of shelf space allocation and the listing process. It identified varieties that Ontario does very well, which are consistent with the perceptions of growers and wineries. The LCBO also sees promising growth for Ontario wines in a range of products categories- rosé wines, sparkling wines, and certain varietal blends.
- The research infrastructure for grapes and wine in Ontario is growing with increased resources, and has recently grown into improved extension capability. Research has focused on agronomic threats to the industry, mapping of the Canadian wine palette, and understand of terroir. There is an opportunity to extend this further into strategic research that can further support the marketing of Ontario wines.

Major components of the above are summarized in the table below, focusing on perceptions/vision that the various stakeholders had relative to varieties, products, grape marketing/procurement, wine marketing, technology, and viticulture. The columns provide a high-level overview of apparent ideas of each of the stakeholders. Moving across the columns in a given row shows that there is significant commonality of view among the three groups' regarding varieties with the caveat regarding Merlot noted above, and among the wineries and LCBO regarding products with growth potential. Grape quality is an issue that appears to require further alignment between growers and wineries. Wine marketing was a source of divergent views among wineries, but there is no evident disconnect between wineries and the LCBO on wine marketing as the LCBO takes up components of each of the varying views among the wineries. Growers and wineries shared common views regarding the focus of technology and the viticultural practices implemented.

It is evident from the above that grape quality, a major element of alignment, is a gap in the views of growers and wineries. Quality is complex, involving measured attributes (brix) as well as a range of other factors such as volatile acids, and others. While existing quality exceeds the VQA standards (on average), there is a demand for improved quality. At the same time, there are two wine grape end uses (VQA and ICB) which have different quality demands. It appears that more information and an improved discussion on quality is required.

Table A: Apparent Stakeholder Perceptions/Visions

	Growers	Wineries	LCBO – Major Retailer
Varietals	<ul style="list-style-type: none"> • Focus on cool climate wines • Aromatic whites: Riesling, Chardonnay, S. Blanc • Reds that can be done well if managed properly – Merlot, Pinot Noir, Cab Franc 	<ul style="list-style-type: none"> • Focus on cool climate varieties – aromatic whites: Riesling, Chardonnay, etc... and certain reds • Wineries should focus on a number of varieties and then also have small lots of specialty product such as Shiraz, Ice wine 	<ul style="list-style-type: none"> • Cool climate varietals • Riesling • Chardonnay • Baco Noir • Pinot Noir – at a higher price point
Products		<ul style="list-style-type: none"> • Rosé wines • Sparkling – we can do well but will not grow in big volumes • Blends – Meritage, VQA blends, Varietal Blends • Chardonnay, Riesling 	<ul style="list-style-type: none"> • Rosé wines • Sparkling • Blends – Meritage, VQA blends, Varietal Blends • Chardonnay, Riesling
Grape Marketing/ Procurement	<ul style="list-style-type: none"> • Grape quality improving • Quality provisions more aggressively enforced • Unclear compensation for improved quality, motivation for quality push 	<ul style="list-style-type: none"> • Grape quality improving • Base prices reflect quality supplied, not quality demanded • Needs improvement 	
Wine Marketing	<ul style="list-style-type: none"> • 	<ul style="list-style-type: none"> • Differences, largely fragmented between WGAO, WCO: <ul style="list-style-type: none"> • Significance of VQA • Role of blends • Life Style Brands • Brands vs Appellation • Push price points up 	<ul style="list-style-type: none"> • Focus on VQA – sub-appellation • Lifestyle brands • Maintain large ICB category
Technologies	<ul style="list-style-type: none"> • Labour saving, quality improving- mechanized leaf removal, thinning • Protection from winter injury, lengthening growing season- wind machines 	<ul style="list-style-type: none"> • Focused on vineyard rather than winery • Labour saving, quality improving- mechanized leaf removal, thinning • Protection from winter injury, lengthening growing season- wind machines 	<ul style="list-style-type: none"> •
Viticulture	<ul style="list-style-type: none"> • Canopy Management, thinning 	<ul style="list-style-type: none"> • Canopy Management, thinning 	<ul style="list-style-type: none"> •

Conclusions

The following conclusions answer the specific project objectives.

1. What are the industry directions?

There is little direction on the grower side. They are remaining in something of a holding pattern as they are not seeing certainty to invest or move in any particular direction. This is conditioned by their perception that it would be difficult to newly obtain a winery contract currently, and without the confidence of a contract there is not the business case to invest in major changes.

- There is a latent interest among growers to invest further in labour saving and quality improving technologies (notably mechanized thinning and leaf removal equipment) and technologies to mitigate winter damage. The growers can envision more of a focus around varieties that grow well here and quality improvements that they are compensated for.
- Another element of direction on the grower side is the location and nature of vines. It is not evident that climatic conditions have been the leading criteria for varietal choice in the past. The oldest vines appear to be hybrids, followed by the major white varieties, along with the red varieties Gamay and Cabernet Franc. The youngest vines are the other major red varieties along with Pinot Gris and Sauvignon Blanc.

Winery directions are mixed, and mostly fragmented by WGAO and WCO membership, with some exceptions as noted in Section 4.2.

- The WGAO wineries have essentially no plans to make investments that would expand capacity due to the uncertain climate. They see industry direction as being driven by continued increases in quality among the varieties that grow well here for VQA- mostly whites and certain reds. It was felt that VQA and ICB's would continue to coexist, with ICB's providing a domestic wine product format for varieties that do not grow well here and for more rapid response to changing consumer preferences, at lower price points. Continued growth in lifestyle brands was foreseen relative to brands featuring winery names and varieties.
- Most of the WCO members said they had no plans to make investments, and where they were planning investments it had more to do with the retail experience and internal operations efficiencies. WCO wineries had a range of thought on future industry direction. Some felt that the ICB category would decline as more informed consumers sought out VQA wines, and that the low-price category would be served by imports while VQA served higher price points and more refined consumers. As new wineries come on stream, each with 20-30 SKU's and needing retail access, there is a perceived need for alignment between the grape supply and wineries committed to 100% Ontario grapes.

The LCBO direction is to continue its support of Ontario wines. The LCBO sees continued demand growth for VQA, and that it will outpace the overall growth in the wine category. The LCBO category sees the significance of the ICB category in serving lower price points and intends to maintain it. There is a clear sense of wines that Ontario

does well on behalf of the LCBO and of growth potential, and these are consistent with those of the wineries.

Research resources that serve Ontario grapes and wine are growing, and are being augmented to have extension capabilities. Past research has focused on the threats to the industry from pests and climate extremes; these are expanding into an improved understanding of consumer tastes and terroir. Researchers see an opportunity to go further into strategic research that could help the industry better segment and target growth markets.

Overall, there is consensus that the industry as a whole must focus on what can be grown well in Ontario – cool climate varieties – aromatic whites, Merlot, and Pinot Noir. This in turn would then move the focus of the industry to quality. Wineries can focus create portfolios out of a handful of varieties and also have smaller specialty varieties for their specialty runs and vintages.

2. What are the varieties with good market potential in the future?

There is a broad sense of good market prospects for wines that grow well in Ontario. These include:

- Aromatic whites: Chardonnay, Riesling,
- Merlot, Pinot Noir (at a higher price point)

These varieties match well with the most popular wines, by sales data, in the larger US market (Wine Economist, 2010). An examination of the big varieties and the ‘hot’ varieties in the US correlate well with what we can do well in Ontario and what the industry sees as the good market prospects.

‘Big’ varieties – those varieties that have sold the most are:

- Chardonnay (50% lead over the next most popular variety)
- Cabernet Sauvignon
- Merlot
- Pinot Gris
- Pinot Noir
- White Zinfandel

The Wine Economist defines the fastest growing varieties in the US as ‘hot’ varieties and these include:

- Riesling
- Pinot Noir
- Sangiovese
- Sauvignon Blanc

The Wine Economist (2010) also states that the hot varieties are the ones that are more commonly paired with food whereas the big varieties are purchased to drink on their own.

- Varietal blends are growing in sales categories in LCBO, and appear to be successfully replacing imported varietal blends. This is some indication of future potential.
- There are some varieties that have good market potential but cannot be grown well in Ontario, therefore the industry needs to focus.

3. What are the varieties that have proven difficult or unreliable to grow?

- Some of the varieties that are challenging to grow can be done well if intensively managed. This is particularly the case with Pinot Noir and other late-ripening reds such as Cabernet Sauvignon.
- Many of the varieties that are difficult to grow consistently are those that can be grown/produced in smaller lots for winery specialty runs and vintages, such as Syrah.
- There are some popular varieties that are not expected to do well in Ontario, such as Malbec.

4. What are the key lessons regarding investments in technology?

The push regarding technology has been in the vineyard much more than in the winery. Investments in vineyard technology have been to save labour, enhance grape quality and implement viticultural practices around canopy management. Notable examples are mechanical leaf pullers, mechanized thinning. The other technological focus is on preventing cold damage and lengthening the growing season; this has led to widespread adoption of wind machines.

5. What are the key viticultural practices that improve grape quality and wine production?

Both growers and wineries note that winemaking technology and knowledge is available – the crucial part of the system is viticultural practices, since the decisions that are made in the field in the span of one season can affect the winemaking process for up to 5 years.

- Grower knowledge is improving and moving toward quality. This has led to a focus on canopy management- more focus and improvements in pruning, leaf thinning, and bunch thinning. This has formed much of the drive for investment in technology.
- There is an identified need more extension from wineries and other researchers. This is available in Ontario on the research side, and it is recently growing on the extension side through CCOVI.